

Message Text

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INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CEA-02 CIAE-00

CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SPC-03 SS-20 STR-08 TRSE-00 IO-14 ACDA-19

DRC-01 PA-04 USIA-15 PRS-01 /207 W

----- 006803

R 290552Z MAR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 908

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION BRUSSELS

AEC GERMANTOWN, MD

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 4136

E.O. 11652: XGDS-3

TAGS: TECH, JA, US

SUBJECT: URANIUM ENRICHMENT - US POLICY

REF: A) TOKYO 15850; B) STATE 040353

SUMMARY: I HAVE BEEN FOLLOWING WITH GROWING CONERN RECENT JAPANESE MOVES TO DECREASE RELIANCE ON US FOR ENRICHED URANIUM SUPPLY. IN THIS MESSAGE, I WISH TO REVIEW SEVERAL POINTS IN OUR PRESENT SUPPLY POLICIES AND PRACTICES WHICH I BELIEVE ARE SERIOUSLY PREJUDICIAL TO OUR MAJOR INTEREST IN CONTINUED JAPANESE RELIANCE ON US SUPPLIES, AND SUGGEST CONSIDERATION OF CHANGES WHICH COULD MAXIMIZE US-JAPAN INTERDEPENDENCE IN NUCLEAR FUEL SUPPLY. END SUMMARY.

1. AS REPORTED REF A, THERE ARE IN JAPAN STRONG PROPONENTS OF DIVERSIFICATION OF SOURCES OF ENRICHING SERVICES AS WELL AS THOSE WHO WOULD PREFER CONTINUE AND EVEN EXPAND THEIR RELATION WITH US IN THIS AREA. NOW THAT SOME DEGREE OF DIVERSIFICATION HAS BEEN ACHIEVED

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THROUGH THE PROSPECTIVE PURCHASE FROM EURODIF, IT REMAINS TO BE

SEEN WHETHER OR NOT JAPAN WILL RETURN TO US FOR REMAINING FUTURE NEEDS. BASICALLY, FACTORS AFFECTING THIS DECISION CAN BE DIVIDED INTO TWO DISTINCT CATEGORIES: A) THOSE RELATING TO USAEC'S PRESENT FUEL SUPPLY POLICIES; AND B) THOSE RELATING TO INTERNATIONAL CO-OPERATION IN CONSTRUCTION OF ADDITIONAL ENRICHING CAPACITY BEYOND USAEC'S PRESENT SUPPLY CAPACITY. IN FOLLOWING PARAGRAPHS SOME OF THESE FACTORS WHICH SEEM TO BE MOST TROUBLESOME TO JAPANESE AND/OR PROVIDE STRONGEST ARGUMENTS FOR PROPONENTS OF DIVERSIFICATION ARE DISCUSSED AND IN SOME CASES SUGGESTIONS FOR RELAXATION OR CHANGES ARE OFFERED.

2. AS REPORTED PREVIOUSLY, JAPANESE TAKE EXCEPTION TO SEVERAL ASPECTS OF PRESENT USAEC ENRICHING SERVICES SUPPLY POLICY. THESE INCLUDE:

A) EIGHT-YEAR LEAD TIME (WHICH CALLS FOR SIGNATURE OF CONTRACTS EIGHT YEARS BEFORE INITIAL DELIVERY OR TEN YEARS BEFORE REACTOR STARTUP) IS MAJOR OBSTACLE TO US SALES AND COULD BECOME EVEN MORE OBJECTIONABLE IF URENCO GAINS ACCEPTANCE AS RELIABLE SUPPLIER SINCE THEY REQUIRE MUCH SHORTER LEAD TIME. OTHER SUPPLIERS ALSO REQUIRE SHORTER LEAD TIME. WHILE ADVERSE EFFECTS OF EIGHT-YEAR LEAD TIME ARE MITIGATED IN SOME DEGREE BY PRESENT LENGTHY SCHEDULES FOR REACTOR CONSTRUCTION, AS REACTOR CONSTRUCTION SCHEDULES ARE ACCELERATED, EIGHT-YEAR LEAD TIME WILL BECOME HIGHLY PREJUDICIAL TO JAPANESE PURCHASE OF US ENRICHING SERVICES. SINCE EIGHT-YEAR LEAD TIME AS BASED ON AEC ESTIMATE OF WHAT COMMERCIAL ENRICHING SERVICES SUPPLIER WOULD REQUIRE, IT SEEMS APPROPRIATE TO RECONSIDER MAGNITUDE OF LEAD TIME FOR VIEWPOINT OF WHAT A COMMERCIAL SUPPLIER WOULD DO WHEN CONFRONTED WITH POTENTIAL LOSS OF SUBSTANTIAL PORTION OF HIS MARKET.

B) ESSENTIALLY ABSOLUTE INFLEXIBILITY IN SPECIFICATION OF QUANTITY OF SWU ONCE AMOUNT INITIALLY FIRMED UP. IN PRACTICE, THIS MEANS THAT AT TIME OF INITIAL FIRM UP, CONTRACTOR MUST FREEZE ON SWU QUANTITY TO BE TAKEN 14 YEARS IN FUTURE EVEN THOUGH FINAL DESIGN OF REACTOR FUEL MAY NOT EVEN BE FROZEN AT THAT TIME. OTHER SUPPLIERS AVOID THIS PROBLEM BY SELLING ENRICHING SERVICES UNRELATED TO SPECIFIC POWER PLANTS.

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ALSO, EURODIF REPORTEDLY OFFERS FLEXIBILITY ALTHOUGH AT A PRICE. THERE ARE INDICATIONS THAT JAPANESE UTILITIES WOULD PREFER HAVE OPTION TO DECIDE FOR THEMSELVES WHETHER THEY SHOULD PAY APPROPRIATE SURCHARGE FOR FLEXIBILITY RATHER THAN HAVE US UNILATERALLY DETERMINE IT NOT IN THEIR BEST INTERESTS TO PROVIDE SUCH FLEXIBILITY.

C) REMOVAL OF CONTRACTUAL ASSURANCES OF NONDISCRIMINATORY PRICE

TREATMENT AS BETWEEN DOMESTIC AND FOREIGN CUSTOMERS FROM BILATERAL AGREEMENT. THIS CHANGE HAS BECOME DOUBLY SIGNIFICANT WITH SUBSEQUENT DECISION TO REMOVE CEILING PRICE GUARANTEE FROM FUTURE CONTRACTS WHICH LEAVES FOREIGN CUSTOMERS COMPLETELY WITHOUT CONTRACTUAL ASSURANCE OF PRICE STABILITY. RECENT OIL EXPERIENCES DEMONSTRATE AGAIN THAT RELATIONS AMONG COUNTRIES CAN CHANGE RAPIDLY AND OF THEMSELVES CANNOT BE RELIED ON FOR ASSURANCE OF EQUITABLE PRICING POLICY UNDER LONG-TERM CONTRACTUAL RELATIONSHIPS. EVEN IN PROPOSED PURCHASE FROM EURODIF, EMBASSY UNDERSTANDS THERE IS FIXED BASE CHARGE SUBJECT ONLY TO DEFINED ESCALATION FACTORS FOR PERIOD FROM 1980 TO 1990. WE REGARD RETENTION OF PRICE PARITY AS CRUCIAL TO PROMOTION OF US INTEREST IN SUPPLY OF ENRICHMENT SERVICES. REINSTATEMENT OF SOME FORM OF PRICE GUARANTEE, PERHAPS NONDISCRIMINATORY TREATMENT BETWEEN DOMESTIC AND FOREIGN CUSTOMERS OR BASE PRICE PLUS DEFINED ESCALATION SHOULD NOT BE DETRIMENTAL TO US INTERESTS, WOULD BE MORE IN LINE WITH NORMAL COMMERCIAL PRACTICE AND WOULD HELP ALLEVIATE SOME OF JAPANESE CONCERN ABOUT RELYING ON US. IT GOES WITHOUT SAYING THAT ACTUAL ADOPTION OF DUAL-PRICE SYSTEM, WITH FOREIGN CUSTOMERS CHARGED MORE THAN DOMESTIC CUSTOMERS FOR SAME SERVICE, WOULD HAVE IMMEDIATE DRASTIC AND IRREVERSIBLE CONSEQUENCES FOR US REPUTATION AS RELIABLE, STABLE AND NONDISCRIMINATORY SOURCE OF SUPPLY.

D) RETENTION OF CEILING ON ENRICHING SERVICES IN BILATERAL AGREEMENT IS AN ADMINISTRATIVE BURDEN DUE TO NEED FOR PERIODIC REVISION AND CREATES UNCERTAINTY WHETHER CUSTOMER CAN RELY ON US FOR ENRICHING SERVICES BEYOND CEILING OR MUST LOOK TO OTHER SOURCES OF SUPPLY. IT WOULD SEEM THAT WHATEVER ADMINISTRATIVE FUNCTIONS ARE SERVED BY CEILING MIGHT JUST AS EASILY BE PROVIDED BY PERIODIC REPORTING OF SUPPLY COMMITMENTS UNDER AGREEMENT. IT IS NOTEWORTHY THAT

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NONE OF OTHER POTENTIAL SUPPLIERS TO JAPAN (EURODIF, USSR AND URENCO) HAS EVEN HINTED AT NEED FOR CEILING. IN FACT, USSR HAS INDICATED THAT BILATERAL GOVERNMENT AGREEMENT ITSELF (WHICH WE RECOGNIZE IS REQUIRED BY US LAW) MIGHT NOT BE NECESSARY, ONLY PROVISION FOR INTERNATIONAL SAFEGUARDS.

3. EMBASSY PLEASED TO NOTE THAT INTERNATIONAL COOPERATION ON URANIUM ENRICHMENT CONTINUES TO BE ONE OF ITEMS FOR STUDY BY ENERGY COORDINATING GROUP. EMBASSY CONCERNED, HOWEVER, THAT ACHIEVEMENT OF SOME DEGREE OF COOPERATION AND/OR COORDINATION WITH EUROPEAN ENRICHMENT ACTIVITIES MIGHT BE AT EXPENSE OF CONTINUED JAPANESE CONTINUING PURCHASES FROM JS AND JAPANESE PARTICIPATION IN US-BASED JOINT VENTURE PLANT FOR REASONS DISCUSSED PARA FOUR BELOW. IT SHOULD BE NOTED THAT EUROPEANS ARE DEFINITELY COMMITTED TO BUILDING EUROPEAN ENRICHMENT CAPACITY FOR OPERATION BY LATE 70'S OR EARLY

80'S. JAPANESE, HOWEVER, HAVE NO PLANS FOR BUILDING DOMESTIC ENRICHING CAPACITY PRIOR TO MID-80'S, IF THEN, AND HENCE MUST IMPORT THEIR NEEDS FROM SOMEWHERE AT LEAST UP TO THAT PERIOD.

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4. REGARDING ADDITIONAL ENRICHMENT SERVICES BEYOND USAEC'S PRESENT CAPABILITY, JAPANESE ARE FIRMLY COMMITTED TO (AND APPARENTLY STILL SERIOUSLY INTERESTED IN) EXPLORING POSSIBILITY OF THEIR PARTICIPATION IN CONSTRUCTION OF NEW ENRICHMENT PLANT LOCATED IN US. JAPANESE CURRENTLY PARTICIPATING IN UEA STUDY AND HAVE BEEN ASKED TO PARTICIPATE IN GE-EXXON STUDY. CLASSIFICATION ISSUE PRESENT

UNIQUE PROBLEM RE EXTENT OF SUCH JAPANESE PARTICIPATION. ANY ARRANGEMENT WHICH WOULD MAKE US CLASSIFIED ENRICHMENT TECHNOLOGY AVAILABLE TO EUROPEANS BUT NOT TO JAPANESE WOULD BE SERIOUS BLOW TO US-JAPAN COOPERATION IN NUCLEAR ENERGY FIELD EVEN THOUGH US MIGHT TAKE POSITION THAT JAPANESE COULD HAVE ACCESS TO CLASSIFIED TECHNOLOGY ANY TIME THEY WILLING AND ABLE MEET SAME SECRECY CONDITION AS EUROPEANS. JAPANESE PROBABLY COULD NOT AND WOULD NOT

CHANGE THEIR ATOMIC ENERGY LAW TO PROVIDE FOR MILITARY SECRECY BUT
INSTEAD WOULD BE MORE LIKELY SHIFT POLICY FROM THAT OF RELIANCE ON
US FOR ENRICHING SERVICES TO RELIANCE ON OTHER NON-US SOURCES OF
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SUPPLY. ALSO, STILL UNRESOLVED QUESTION OF WHETHER PRIVATE IN-
DUSTRY OR US GOVERNMENT WILL BUILD NEXT INCREMENT OF ENRICHING
CAPACITY LEAVES JAPANESE IN DILEMMA. IF THIS PROBLEM NOT RESOLVED
SHORTLY, JAPANESE UTILITIES MAY FEEL COMPELLED TO LOOK FOR OTHER
OPPORTUNITIES SUCH AS URENCO-SPONSORED ACE GROUP IN WHICH THEY NOW
PARTICIPATING IN CURRENT STUDY PHASE.

5. FINAL ISSUE IS THAT OF THREATENED INTERRUPTION IN US ENRICHMENT
SERVICES CONTRACTING WHEN PRESENT US CAPABILITY FULLY COMMITTED
AROUND END OF THIS YEAR. DISCONTINUANCE OF US CONTRACTING WOULD
CONSITUTE VIRTUAL INVITATION OT JAPANESE AND OTHER CUSTOMERS TO
SEEK SUPPLIES ELSEWHERE AND COULD LEAD TO COMMITMENTS AND ALTERNA-
TIVE SUPPLY PATTERNS THAT WOULD PERMANENTLY DAMAGE US SUPPLY ROLE.
UNINTERRRUPTED US ABILITY TO CONTRACT FOR JAPANESE NEEDS AS THEY
ARISE IS ESSENTIAL INGREDIENT FOR MAINTAINIG US CREDIBILITY AS
MOST RELIABLE SUPPLIER.

6. COMMENT. JAPANESE PLANS FOR UTILIZATION OF NUCLEAR POWER ARE
SECOND ONLY TO THOSE OF US AND THE JAPANESE PROGRAM TO DATE HAS
BEEN ALMOST TOTALLY DEPENDENT ON ENRICHED URANIUM OF US ORIGIN.
EVENTS ASSOCIATED WITH RECENT OIL EMBARGO AND OIL PRICE INCREASES
PROVIDE DRAMTIC EVIDENCE OF THE ENORMOUS POLITICAL AND ECONOMIC
LEVERAGE WHICH IS HELD BY MAJOR ENERGY SUPPLIERS OVER CONSUMER
NATIONS. IT IS IN THE INTEREST OF US TO ASSIST JAPAN IN REDUCING
ITS VULNERABILITY TO THESE PRESSURES BY CONTRIBUTING TO THE AVAIL-
ABILITY OF STABLE SUPPLIES OF VITAL ENERGY SOURCES. OUR DOMINAT
POSITION AS SUPPLIER OF ENRICHMENT SERVICES, IF MAINTAINED AND
STRENGTHENED BY EFFECTIVE POLICIES AND PRACTICES ON OUR PART, CAN
BE AN IMPORTANT ELEMENT IN MEETING THIS NEED.

7. IT IS OUT OF A CONCERN THAT A NARROW PREOCCUPATION WITH EN-
RICHMENT PLANT PRODUCTION ECONOMICS, RATHER THAN BROADER POLITICAL
AND ECONOMIC OBJECTIVES OF US POLICY, MAY RESULT IN CONTRACT
POLICIES THAT COULD DRIVE THE JAPANESE AWAY FROM DEPENDENCE ON US
SUPPLIES THAT WE ARE THEREFORE RECOMMENDING REVIEW OF SEVERAL
ASPECTS OF OUR ENRICHMENT SUPPLY POLICY. WHILE I AM AWARE THAT
SOME OF THE CHANGES DISCUSSED ABOVE ENTAIL SOME COMMERICAL RISKS,
I BELIEVE THESE RISKS MUST BE EVALUATED AGAINST THE LARGER STAKE
WE HAVE IN MAINTAINING JAPANESE DEPENDENCE ON US ENRICHED URANIUM
SUPPLIES IN THE COMMING PERIOD.

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8. I THEREFORE URGE THAT THE DEPARTMENT, TOGETHER WITH THE AEC AND OTHER CONCERNED AGENCIES, REVIEW THE ABOVE ELEMENTS OF US ENRICHMENT POLICIES AND PLANS WITH THE SPECIFIC OBJECTIVE OF MAXIMIZING THE OPPORTUNITIES FOR JAPAN TO CONTINUE ITS PREVIOUS RELIANCE ON US ENRICHMENT SUPPLIES AS IT PURSUES ITS VITAL NUCLEAR POWER PLANS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: URANIUM, SUPPLIES, NUCLEAR POWER PLANTS, NUCLEAR FUELS, PEACEFUL USES OF ATOMIC ENERGY
Control Number: n/a
Copy: SINGLE
Draft Date: 29 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO04136
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X3
Errors: N/A
Film Number: D740069-0040
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974032/aaaaabvz.tel
Line Count: 286
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SCI
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) TOKYO 15850; B) STATE 040353
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by collinp0>; APPROVED <05 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: URANIUM ENRICHMENT - US POLICY
TAGS: TECH, JA, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005